



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

February 7, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Millbury National Bank
Charter Number 13835**

**18 Main Street
Millbury, MA 01527**

**Comptroller of the Currency
New England Field Office
20 Winthrop Square, Suite 200
Boston, MA 02110-1229**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING

This institution is rated "Satisfactory."

The lending performance of Millbury National Bank is satisfactory given its size, financial condition, and the credit needs of its assessment area. The primary factors supporting the bank's overall rating include:

- The average loan-to-deposit ratio is reasonable and averaged 72% since the last CRA examination.
- The majority of loans originated, 66% by number and 71% by dollar amount, are to borrowers within the assessment area.
- The distribution of consumer loans reflects excellent penetration to low- and moderate-income individuals.
- The distribution of loans to small businesses with revenues of less than \$1 million is reasonable.

DESCRIPTION OF INSTITUTION

Millbury National Bank (MNB) is a nationally chartered commercial bank headquartered in Millbury, Massachusetts. Millbury is located in Worcester County and is about 45 miles west of Boston. As of September 30, 2004, MNB had total assets of \$66.8 million. MNB is an independently owned bank and there is no holding company structure, or any subsidiaries or affiliates. There is one branch located in Grafton, Massachusetts. Both banking offices are full service and have 24-hour automated teller machines. No offices have been closed since our last CRA examination dated July 20, 1999.

Millbury National Bank offers a wide variety of loan and deposit products to meet consumer and commercial banking needs. The bank's Internet website, www.mnbonline.com provides detailed information on products and services for both consumers and businesses. MNB also offers customer access to accounts through debit cards and telephone banking. MNB offers standard banking deposit products for consumers. Business deposit products include checking accounts, money market accounts and certificates of deposit.

MNB is primarily a commercial lender specializing in small and medium size businesses. Commercial loan products include term loans, lines of credit, commercial real estate loans and equipment loans. MNB participates in government guaranteed programs with the Small Business Association (SBA). MNB also offers a variety of consumer loan products. These products include personal loans, home mortgage loans, home equity lines of credit, construction loans, auto loans and home improvement loans. As of September 30, 2004, the bank had total deposits of \$60.4 million and net loans of \$43.9 million, representing 90% and 66% of total

assets, respectively.

The distribution of the bank's loan portfolio, at September 30, 2004, is reflected in **Table 1**, below.

Table 1 - Loan Category – September 30, 2004 Call Report	\$ (000)	%
Commercial Real Estate Loans	20,525	46
Commercial Loans	11,457	26
Residential Mortgages	7,374	17
Home Equity Loans	3,353	7
Consumer Loans	1,475	3
Other Loans	176	<1
Total	44,360	100%

The bank was assigned a “Satisfactory” CRA rating at the previous examination dated July 20, 1999. There are no legal or financial restrictions that would impede the bank's performance and ability to meet the credit needs of its assessment area.

Table 2 reflects the volume of lending from January 1, 2002 through September 30, 2004. Based on the number and dollar volume of loans originated, the greatest dollar volume of loans was commercial loans. Consumer had the second largest number of loans originated. Based on this data, we focused our sample on commercial loans and consumer loans. Loans reportable under the Home Mortgage Disclosure Act (HMDA), which includes home purchase, refinance and home improvement loans, represent less than 5% in number and 16% of dollar volume originated during the evaluation period. For this reason, HMDA reportable loans are not considered primary product lines.

Table 2 - Loan Originations By Product Type (From January 1, 2002 through September 30, 2004)				
Loan Type	Number	% of Total	Dollars (000s)	% of Total
Commercial Real Estate Loans	80	5%	16,607	26%
Commercial Loans	970	67%	26,333	42%
Residential Mortgages	56	4%	10,016	16%
Home Equity Loans	96	7%	6,790	11%
Consumer Loans	254	17%	2,855	5%
Total	1,456	100%	62,601	100%

DESCRIPTION OF MILLBURY NATIONAL BANK ASSESSMENT AREA

Millbury National Bank has one defined assessment area (AA) which is comprised of 15 towns in the Worcester Metropolitan Statistical Area (MSA). The towns included in MNB's AA are Auburn, Blackstone, Douglas, Grafton, Hopedale, Mendon, Millbury, Millville, Northbridge, Oxford, Shrewsbury, Sutton, Upton, Uxbridge, and Westborough. The AA meets the legal requirements of the regulation and does not arbitrarily exclude any low- or moderate-income tracts.

MNB's assessment area is comprised of 35 census tracts. Based on 1990 U.S. Census Data, there were 27 middle-income census tracts, 7 upper-income census tracts and one tract not applicable due to a lack of sufficient income data. U.S. Census Data for 2002 shows 25 middle-income census tracts, 9 upper-income census tracts and one tract not available. In 2004, MSA boundaries and definitions were recalculated, and the updated 2000 U.S. Census Data reflected 24 middle-income census tracts, 10 upper-income census tracts and one tract not available. There are no low or moderate-income census tracts.

Table 3 reflects the assessment area demographic and economic characteristics of the assessment area based on 1990 and 2000 Census Data the 2002, 2003 and 2004 Housing and Urban Development Agency (HUD) data.

Table 3 - Demographic Data: Millbury AA	1990 U.S. Census	2000 U.S. Census	2000 U.S. Census***
Population			
Total Persons	151,893	174,564	174,564
Total Families	41,647	47,092	47,092
Number of Households	55,865	65,254	65,254
Geographies			
Total number of census tracts (CT)	35	35	35
Percentage of Low-Income tracts	0	0	0
Percentage of Moderate-Income tracts	0	0	0
Percentage of Middle-Income tracts	77%	71%	69%
Percentage of Upper-Income tracts	20%	26%	28%
Percentage of NA tracts	3%	3%	3%
Economic Indicators			
Median Family Income (MFI) *	\$60,657	\$69,829	\$69,900
Median Housing Value	\$152,088	\$175,172	\$175,172
Number of Housing Units	59,070	67,330	67,330
Number of Owner Occupied Units	39,927	48,778	48,778
Number of Rental Units	16,979	16,477	16,477
% of Households Below Poverty Level	5%	5%	5%
Average monthly gross rent	\$582	\$693	\$693
Business Indicators			
Number of Businesses (non-farm)	9,358	9,598	9,839
Percentage of small businesses**	77%	65%	65%

Source: U.S. Census Data

* Updated HUD-adjusted figures for 2002,2003,2004

** Businesses which reported annual revenues of less than or equal to \$1 million.

***2000 U.S. Census Data updated based on changes in 2004 to MSA boundaries and definitions

Based on U.S. Census Data the population of the assessment area has grown about 15% in the ten years from 1990 to 2000. Based on the Department of Housing and Urban Development (HUD), the adjusted Median Family Income (MFI) for 2002 is \$60,657, \$69,829 in 2003, and \$69,900 in 2004. Of the total households in the AA in 2002, 18% were low-income, 14% were moderate-income, 21% were middle-income and 47% were upper-income. In 2003 and 2004, 18% of the households were low-income, 13% were moderate-income, 18% were middle-income and 51% were upper-income.

The bank operates in a highly competitive market. According to the Federal Deposit Insurance Corporation (FDIC) market share report for the Worcester MSA as of June 30, 2004, there were 39 institutions in the Worcester MSA market. Additionally, there are several credit unions in the AA. The bank's largest competitor for consumer related products is the Millbury Credit Union. Other competitors include Commonwealth National Bank, Millbury Savings Bank and Unibank.

Based on data obtained from the Massachusetts Division of Unemployment Assistance, the unemployment rate for the Central Massachusetts Workforce Area is 5.5% at June 30, 2004. Small employers dominate the Central Massachusetts Workforce Area. As of March 2003,

85.5% of establishments reporting employment had less than 20 employees. The Assessment Area has no single large employer. Primary industry in the area is hospitality related and construction.

MNB is one of five banks participating in the Greater Blackstone Valley Community Loan Consortium. This program was designed to provide very small loans to the higher risk small companies and spread the risk among the five banks. MNB is committed to \$75 thousand.

Bank management has identified small business lending as the primary credit need in the AA. In conjunction with this Performance Evaluation, we made a community contact to assist us in gauging the credit needs of the community. We contacted a local Chamber of Commerce who also indicated that small business lending is the primary credit need in the area. Of note, 75-80% of Chamber of Commerce members have 0-5 employees.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan to deposit ratio reflects satisfactory lending performance given the bank’s balance sheet structure, available lending opportunities and highly competitive market area. The loan-to-deposit ratio (LTD) of 72% was calculated using an average of 21 consecutive quarters since the last CRA examination. The bank’s LTD ratio fluctuated between 52% at September 30, 1999, to 85% at March 31, 2003. A comparison with New England banks with total assets less than \$100 million reflected an average peer LTD ratio of 72% over the same timeframe.

Lending in Assessment Area

The majority of originated loans were made to borrowers within the AA. The loan products sampled and the results of our analysis are detailed in **Table 4** below. Our sample was comprised of 60 commercial loans and 60 consumer loans. The total sample represents about 8% of total loans originated from January 1, 2002 through September 30, 2004.

Table 4 - Lending in Millbury AA (From January 1, 2002 through September 30, 2004)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000s)	%	\$(000s)	%	
Commercial	46	77	14	23	60	3,388	73	1,266	27	4,654
Consumer	33	55	27	45	60	322	54	276	46	598
Totals	79	66	41	34	120	3,710	71	1,542	29	5,252

Source: loan sample

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

MNB's lending to low and moderate-income households is excellent and lending to small businesses is satisfactory. Our analysis is based on the loan sample and time period as presented in **Table 4** on the preceding page. Lending in 2002 is compared to 1990 U.S. Census Data, and lending in 2003 and 2004 is compared to 2000 U.S. Census Data. The 2004 comparative data is further affected by the 2004 changes to the definitions and boundaries of MSAs. The household U.S. Census Data remained the same for 2003 and 2004. For business loan data, the small business geodemographic data for 2004 was different from 2003.

Table 5A - Borrower Distribution of Consumer Loans in Millbury AA (From January 1, 2002 through December 31, 2002)								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	18	29	14	29	21	14	47	28

Source: loan sample; 1990 U.S. Census Data.

Table 5B - Borrower Distribution of Consumer Loans in Millbury AA (From January 1, 2003 through September 30, 2004)								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	18	31	13	31	18	19	51	19

Source: loan sample; 2000 U.S. Census Data.

Note: 2000 U.S. Census Data for updated 2004 MSA boundaries and definition is the same as for the 2003 MSA boundaries and definitions.

Tables 5A and 5B reflect an excellent level of lending to household's with low and moderate-income levels. For each year of the time period reviewed, the bank's lending to households with low and moderate-income levels was significantly higher than the distribution of low and moderate-income level households in the AA.

**Table 6A - Borrower Distribution of Small Loans to Businesses
(from January 1, 2002 through December 31, 2002)**

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	77%	7%	16%	100%
% of Bank Loans in AA by #	67%	33%	0	100%
% of Bank Loans in AA by \$	63%	37%	0	100%

Source: loan sample; 2002 Business Geodemographic Data

Table 6B - Borrower Distribution of Small Loans to Businesses (from January 1, 2003 through December 31, 2003)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	65%	7%	28%	100%
% of Bank Loans in AA by #	65%	35%	0	100%
% of Bank Loans in AA by \$	62%	38%	0	100%

Source: loan sample; 2003 Business Geodemographic Data

Table 6C - Borrower Distribution of Small Loans to Businesses (from January 1, 2004 through September 30, 2004)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	66%	7%	27%	100%
% of Bank Loans in AA by #	67%	33%	0	100%
% of Bank Loans in AA by \$	54%	46%	0	100%

Source: loan sample; 2004 Business Geodemographic Data

Tables 6A, 6B and 6C reflect reasonable penetration of MNB's lending activity to small businesses. Small businesses are defined as those with gross annual revenues of one million dollars or less. In 2002, the bank's lending to small businesses was lower than the demographic data. However, bank management indicated that many of their long time small business lending customers' gross revenues are reaching levels that are just over \$1 million. This is reflected in the demographic data for 2003 and 2004 (**Tables 6B and 6C** above), which shows a significant decrease in the percent of small businesses at 65% and 66%, respectively, from 77% in 2002 (**Table 6A**). The bank's lending to small businesses meets demographics in 2003 and 2004.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans would not be meaningful. The bank's assessment area consists of 35 census tracts, all of which are in middle or upper income tracts.

Responses to Complaints

Neither the bank nor the OCC received CRA complaints on Millbury National Bank since the prior examination of July 20, 1999.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.